

Message Text

UNCLASSIFIED

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
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R 222142Z JUN 77
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 5343

UNCLAS SANTIAGO 5161

DEPT PASS EXIMBANK

E.O. 11652: N/A
TAGS: CI EFIN
SUBJECT: RETURN OF BANCO OSORNO TO CORFO

REF: SANTIAGO 0148; SANTIAGO A-20

1. SUMMARY: THE BANCO OSORNO, ONE OF THE LARGEST CHILEAN BANKS,
AND RECIPIENT OF SEVERAL EXIMBANK GUARANTEES, WAS INTERVENED BY
THE GOC'S SUPERINTENDENCY OF BANKS ON JANUARY 5, TO KEEP THE BANK

FROM BANKRUPTCY. THE BANK'S TWO TOP MANAGERS WERE THEN ACCUSED
OF MISMANAGEMENT AND HAVE BEEN IN JAIL EVER SINCE. CORFO, THE
GOC DEVELOPMENT CORPORATION, HAD SOLD THE BANK TO THE PRIVATE
SECTOR IN OCTOBER 1975 ON GENEROUS CREDIT TERMS. AFTER THE BANK'S
INTERVENTION, THE ORIGINAL PURCHASERS FAILED TO MAKE THEIR
SCHEDULED PAYMENTS. CORFO FORECLOSED ON THESE DEBTS, REPOSSESSED
THE SHARES AND AUCTIONED THEM PUBLICLY ON JUNE 16. AFTER THE
AUCTION TOOK PLACE, HOWEVER, IT WAS REVEALED THAT THE SHARES
WERE BOUGHT BY CORFO ITSELF. END SUMMARY.

2. IN OCTOBER 1975, WHEN THE BANCO OSORNO WAS SOLD TO THE
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PRIVATE SECTOR IT WAS TAKEN OVER BY A GROUP LED BY
FRANCISCO FLUXA, WHO BECAME THE BANK'S PRESIDENT. THE
PURCHASE OF THE BANK BY FLUXA AND A NUMBER OF ASSOCIATES
(MANY APPARENTLY STRAWMEN) WAS IN VIOLATION OF THE CHILEAN
LEGAL REQUIREMENT THAT NO INDIVIDUAL MAY OWN MORE THAN 1.5
PERCENT OF THE CAPITAL STOCK OF A COMMERCIAL BANK. FLUXA IN
FACT EXERCISED FULL POWERS DURING HIS SHORT REIGN, USING THE

BANK'S REPUTATION AND RESOURCES IN NUMEROUS INVESTMENT DEALS OF HIS OWN. HE WAS THEREBY HELD RESPONSIBLE FOR THE BANK'S PRECARIOUS SITUATION IN DECEMBER 1976. HIS PERSONAL SHARES AND THOSE OF HIS CLOSEST ASSOCIATES, HOWEVER, WERE NOT INCLUDED IN THE PUBLIC AUCTION OF LAST WEEK, SINCE THEIR ASSETS HAVE BEEN FROZEN UNTIL THE CRIMINAL CHARGE OF MIS-MANAGEMENT AGAINST THEM IS DISPOSED OF.

3. THE UNEXPECTED EVENT DURING THE AUCTION WAS THAT CORFO PURCHASED PRACTICALLY ALL OF THE SHARES BEING SOLD, AT PRICES WELL BELOW THEIR MARKET VALUE (THE AVERAGE PRICE PAID FOR THE SHARES WAS CH PESOS 0.46 VERSUS THAT MORNING'S OPENING PRICE AT THE STOCK EXCHANGE OF CH PESOS 1.60.) CORFO'S DOUBLE ROLE AS PURCHASER AND AS RECIPIENT OF THE AUCTION'S

PROCEEDS IS NOW QUESTIONED BY THE PREVIOUS OWNERS BECAUSE OF THE OBVIOUS DAMAGE THAT THEY STAND TO SUFFER.

4. CORFO HAS STATED TO THE PRESS THAT ONCE THE BANCO OSORNO IS PUT BACK ON ITS FEET, IT WILL AGAIN BE SOLD TO THE PRIVATE SECTOR. IN STATING THIS, CORFO HAS IMPLICITLY ADMITTED THAT THE PUBLICIZED AUCTION OF LAST WEEK WAS MERELY A FORMALITY, AND THAT IT (CORFO) DID NOT HAVE THE INTENTION OF OFFERING THE BANK TO THE PRIVATE SECTOR AS YET.
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